'Future is bright for PE/VC fundraising'

Staff writer
feedback@livemint.com

It has been a year since the covid-19 pandemic caused disruption in our lives. The deal-making landscape was no exception. Data suggests that the past year saw a slight dip in funds raised in the private equity (PE)/venture capital (VC) space. But, as this industry explored out-of-the-box solutions for various aspects, the correction was quick, and some encouraging fundraisings happened over the course of 2020.

The most exciting thing for this decade is that the mobilization of domestic capital will be a major game-changer for the fund management industry in India.

The latest episode of Trilegal presents Mint CXO Dialogues, titled *Post Covid landscape for PE/VC funds: What 2021 will look like for fund managers*, showed the way ahead for the fundraising environment in the country in 2021, the opportunities coming up, and the challenges and the changes that are required to support Indian fund managers. At the session, experts representing both general partners (GP) and limited partners (LP) spoke about the experiences of the last year. The session was moderated by Trilegal partners Yash Bansal, Aditya Jha and Ganesh Rao.

"Post covid, you are now seeing interest from global LPs to put more capital to work in a country like India. There have been challenges, and the interest from investors has been fluctuating. But, I think the world over, a lot of people now recognize asset management and alternative investment fund (AIF) platforms as a vehicle for putting long-term money to work," said Hemant Daga, chief executive officer, Edelweiss Asset Management.

"The runway in India is huge. Credit is a space that is underpenetrated. Indian markets offer yields that are far more attractive than what the world is offering. I think LPs realize this, and covid may have accelerated the move for more money to come to asset managers, especially long-term locked-up vehicles," he added.

(Clockwise from top, left) Hemant Daga, chief executive officer, Edelweiss Asset Management; Pranav Pai, founding partner at 3one4 Capital; Neha Grover, South Asia regional lead, private equity at International Finance Corp.; Srikrishna Dwaram, partner at True North; Subramaniam Krishnan, partner at EY; and Trilegal partners Yash Bansal, Aditya Jha and Ganesh Rao.

2019 was a record year for Indian VC fundraising, both for the funds as well as the startups.

"We broke all previous records and crossed over $14 billion in capital raised by startups in India. Over the past 12 months, at the startup level, the ecosystem has pulled together in a way very few expected to. India has come out much stronger and much more capable. We expect 2021 to be a very large year for Indian AIFs looking to close their own funds. This should also be the year where we see the first startup IPO, which will be a momentous event for all of us," said Pranav Pai, founding partner at 3one4 Capital.

TRILEGAL presents mint CXO DIALOGUES

The pandemic brought with it some challenges. One of the major ones was managing diligences for GPs in the past year. But, since this is an asset class with a long-term horizon of 10-12 years, a one year's impact on the portfolio will not be much. A big change seen across businesses, whether it is for GPs, investees or LPs, is that the adoption of technology has accelerated significantly.

"We have managed a few diligences online. But the big change is the nuances that you pick up when you are talking face to face. We can't now feel the pulse of the team or the GP just by talking virtually over the screens. That is one big change. For a lot of LPs, who have 3-4 members in their teams based outside of India and are looking at the global PE space to invest into, the challenge for them is firefighting on the existing portfolio and seeing what is the best opportunity now. And not being able to travel puts a bit of a dampener on the plans," said Neha Grover, South Asia regional lead, private equity at International Finance Corp.

As fundraising periods get extended due to the practical challenges posed by covid, one of the big changes expected is that a large number of LPs will reinvest with GPs and vice versa, as completing due diligence on new partners in an age where travel has still not opened up will be tough.

"In this one-year period, two things have happened. One, the whole distance between an LP, GP and portfolio company has reduced significantly. Second, if your portfolio is performing well, what you can aspire for is that your existing LPs reinvest with you, which is not usual in the past. Also, you need to budget for a much longer period for fundraising," said Srikrishna Dwaram, partner at True North.

The need of the hour is to create more classes of Indian LPs to deepen the market and bring more institutional capital to the table. There are changes required on the regulatory side to incentivize the LP pools for the alternatives industry in India. "This has been the pursuit of the industry for some time now. It has been a process of educating the government and the various regulators that this is an asset class that is very critical to the government's ambition, whether it is in terms of infrastructure, manufacturing, or capacity building. There are two aspects to this – regulation and a basic understanding of the asset class for the institutional LP to be able to assess it and allocate capital to GPs," said Subramaniam Krishnan, partner at EY.

With the pie growing every year, the outlook for 2021 for the PE/ VC space seems very positive. "If you gave me a $10 million exit for an early-stage outcome in 2015, you would have been my best friend. Today, $100 million is not enough. I'm happy to see that the size of the prize is growing every year. We are very excited about that becoming larger and larger this decade," Pai concluded.